CHAPTER 5

PLANNING

PART I - GENERAL

Historically, the DoD audit organizations have experienced a shortfall of resources to fully cover all DoD operations and programs. Accordingly, it is essential that available audit resources be allocated and used so as to provide maximum benefit to DoD management in terms of improving ef f activeness, redwing program costs, and assuring the adequacy of internal controls in areas vulnerable to f raud, waste, abuse, or mismanagement.

Part II of this chapter covers the establishment, maintenance, and use of an inventory of auditable entities. Part III deals with the developer-k and staffing of an annual audit plan. The audit-planning process covered in this chapter is a multi-phased process designed to provide a systematic and rational basis for the allocation of resources. In brief, the process involves identifying and assigning priorities to auditable entities and developing an annual audit plan. Guidance on the preparation of plans for individual audit projects (as distinguished fran an audit organization's annual, audit workload) is covered in Chapter 8 of this Manual, "Performing Audits. " The overall concepts to be used in establishing priorities and audit objectives are covered in Chapter 3, "Audit Concepts. "

PART II - INVENTORY OF AUDITABLE ENTITIES

A. PURPOSE

This part covers the establishment, maintenance, and use of an inventory of audi table entities. The inventory, in turn, comprises the potential workload of an audit organization.

B. APPLICABILITY

All the policies, standards, and other provisions contained in Part II of this chapter shall be followed by the DoD central internal audit organizations in developing their inventory of auditable entities. Sections D and E, which outline audit policies and standards, also apply to the DoD internal review and nonappropriated fund audit organizations. The remaining sections, with the exception of section H, may be used as guidelines by those organizations in structuring their audit workload.

C. BACKGROUND

Office of Management and Budget Circular A-73 (reference (b)) requires that each Government audit organization develop an audit universe and maintain records of its universe that identify the organizations, programs, activities, and f unctions subject to audit. Each audit organization is also required to periodically review its audit universe and to determine the coverage, frequency, and priority of audit required for each identified component. Developing and maintaining a canprehensive and prioritized audit universe promotes better use of audit resources, provides a basis for selecting audit candidates, and serves as support for personnel staffing requirements.

D. POLICY

1. Each DOD audit organization shall establish, maintain, and use an inventory of auditable entities for: long-term planning; developing the annual audit plan; allocating resources; evaluating audit planning, performance, and staff ing levels; and answering inquiries f ran external sources concerning past, current, and planned audit ooverage.

2. The inventory shall be maintained consistent with the manner in which the audit organization intends to conduct its audit activities.

3. While the inventory of auditable entities may vary in form and content between the various audit organizations, the organization must maintain records that can be used to show for its Component:

   a. What entities are subject to audit.

   b. Why specific activities/functions/programs/systems have not received recent audit coverage.

   c. Relative priorities for audit coverage.

E. STANDARDS

Chapter 2 of this Manual. contains the DoD internal auditing standards. The standards most closely related to the establishment, maintenance, and use of an inventory of auditable entities are as follows:

    a. 610- Organization

    b. 630- Scope of Responsibility

    c. 6 4 0 - Determination of Audit Priorities

    d. 650 - Planning

F. AUDIT PLANNING CONCEPTS

A sound planning process is essential for the effective management of an audit organization and the proper allocation and control of audit resources. This process is as complex and important as performing audits. If audit resources are applied to areas with little return or benefit to management, the performance of excellent audit work will be of little value. Therefore, a systematic and rational basis is needed to ensure that the most important areas are selected for audit coverage. (This matter is discussed in greater detail in Chapter 3, " Audit Concepts.") The internal audit activity should be able to justify to third parties why certain areas were selected for audit, why others were not, what has been audited in the past, what is scheduled for audit, and what has neither been audited nor scheduled for audit. The audit planning process should include the following elements:

    1. Identifying organizations, programs, systems, and other major areas subject to audit.

    2. Recording this information-as well as the priority for each audit area-- in an inventory of auditable entities (also referred to as an audit universe file) .

    3. Using the data in the inventory for long-term audit planning and to develop the annual audit plan.

    4. Recording information in the inventory on prior audit coverage.

    5. Coordinating, as necessary, with audit followup officials to determine status information on prior audit findings and recommendations.

G. ESTABLISHING THE INVENTORY

Each internal audit activity shall establish an inventory of audi table entities. This inventory represents the audit organization's potential audit workload. The inventory of audi table entities shall identify each organization, program, system, and function for which the audit activity has primary cogni- zance. This will vary for an organization such as the Office of the Assistant Inspector General for Auditing (OAIG-AUD) , OIG, DoD. The OAIG-AUD has primary cognizance for audits of the Office of the Secretary of Defense, Unified

Commands, and Defense Agencies, and must maintain adequate records to identify entities subject to audit coverage in those organizations. It is not required to maintain an inventory of each organization in the Military Departments. The OAIG-AUD inventory of auditable entities should focus on activities, programs, systems, and functions that lend themselves to interservice audits. The OAIG-AUD is encouraged to make use of auditable entity files used by the other central internal audit agencies to the extent possible, and to coordinate its coverage with the Office of the Assistant Inspector General for Inspections, OIG, DoD. The contents of the file are discussed in more detail in the following subsections:

1. Types of Audi table Entities

a. Name of Organization, Activity, or Unit. Include the name of the unit and its unit identification code, as applicable. Use various sources such as unit identification code listings, the Approved Defense Program, organizational charts, telephone directories, and other similar sources to identify organizations, activities, or units to be included in the inventory. Exercise judgment when determining what constitutes an organization, activity, or unit for purposes of the inventory. For example, within the Army, a division may constitute an organization for the purpose of the inventory even though the division is comprised of many smaller units. However, exercise care to ensure that the inventory includes all smaller units that are not part of larger units already included in the inventory. Retain appropriate documentation to support the inventory of auditable entities. As a minimum, show the elements that make up each organization, activity, or unit.

b. Programs. Show each program for which the audit activity has responsibility. A program is a group of related policies, procedures, systems, and areas, including appropriate resources (funds, personnel, etc.) , designed to accomplish predetermined and specific organizational goals or objectives. Examples of programs include: depot maintenance program, health care program, acquisition program for F-1 aircraft, family housing program, construction program, cash management program, industrial preparedness program, civilian personnel program, military personnel program, unit training program, traffic management program, civilian pay program, and military pay program.

c. Systems. A system is a series of manual or automated steps or processes by which transactions are recognized, authorized, classified, recorded, summarized, and reported. Each system for which an activity has a responsibility shall be recorded in the inventory. Some of the types of systems which should be identified are accounting systems, weapons and combat support systems, major components under project manager control, budget and programing systems, disbursing systems, payroll systems, resource management systems, automated data processing systems, communications systems, supply systems, and personnel management systems .

d. Other Audit Areas. Structure the inventory in the same manner in which audits are expected to he performed. If audits are performed of activities, systems, or programs, no further development of audit areas may be needed. If, however, audits are structured in sane other way, recognize this in the inventory. For example, audits might be performed on a functional basis using the 34 functional categories or elements of these categories specified

in Chapter 16 of this Manual. If this is the case, record these audit areas in the inventory. In building the auditable entity files initially, identify and include audit areas covered during the past 2 years. Then-and even more important-as new audits are programed and performed, categorize and record them in the inventory of auditable entities, showing not only the units, programs, or systems within which the audit is planned or performed, but also those units, programs, and systems which contain similar audit areas.

2. Priority of Audit. Assign a priority of audit to each audit area. In assigning priorities, an average frequency of about 3 years is desirable for all significant audit areas, but shorter or longer frequencies will be appropriate in many instances. Determine the priority by weighing the importance of various factors and assigning a numerical rating for each of the factors included in the ranking matrix. At a minimum, consider the following factors in the ranking matrix:

a. Risk. The adequacy of internal control systems and the vulnerability of an area to fraud, waste, abuse, or mismanagement are the major considerations in this area. Also, the newness of, or major changes in, programs and systems could increase the risks.

b. Sensitivity. The sensitivity of a program or system to the mission of an organization and the importance of that mission to the overall mission of its parent organization are important considerations. Other considerations include whether an area is of high interest to the head of the Department or organization or whether poor performance in an area could cause severe embarrassment to the Department or Agency or adversely impact its relations with Congress.

c. Audit Experience. Give a higher rating to an audit area that has a history of major deficiencies than to an area that has experienced only minor deficiencies in the past. Be sure to consider the results of other evaluations such as inspections, investigations, and program reviews, along with the results of the most recent reviews by the audit activity, other DoD audit organizations, the U.S. General Accounting Off ice (GAO) 3), and commercial firms performing audit work on a contractual basis.

d. Financial Impsct. Identify the current or potential dollars involved in the programs, system, or f unction. This can be measured in various ways such as value of assets or amount of f Wing.

e. Time Since Last Audit. Consider the date of the last audit or canprehensive inspection and assign higher ratings to those with longer clasped times since the last review.

f. Management Request. Assign additional rating points when management requests audit of the area.

3. Audit Coverage. Include information in the inventory by audit area about prior audits performed by the organization itself, other DOD internal audit activities, the GAO, and commercial firms on a contractual basis that shows when each audit was performed and its magnitude. The long term goal is to maintain historical data for at least 5 years.

H. COORDINATING WITH INTERNAL REVIEW ACTIVITIES

Periodically, coordinate the inventory maintained by the internal audit activity with the appropriate internal review activities (or other activities conducting audits at local levels). This inventory should be used by the internal review activities for long-term planning and development of their annual internal review program. Normally, the internal audit organizations would devote primary emphasis to audits of programs or systems, while internal review organizations would be concerned primarily with smaller segments of the organization to which they are assigned.

1. ANNUAL REVIEW OF INVENTORY

Review the inventory of audi table entities each year for reasonableness and currency of the information prior to development of the annual audit plan. Adjust frequency cycles and priorities based on actual audit experience.

PART III - ANNUAL AUDIT PLAN

A. PURPOSE

This part covers the development and staffing of annual audit plans.

B. APPLICABILITY

All the policies, standards, and other provisions contained in Part III shall be followed by the DoD central internal audit organizations in developing and staffing their annual audit plans. Sections C, D, and J, also apply to the DoD internal review and unappropriated fund audit organizations. The remaining sections may be used as guidelines by those organizations in developing their annual audit plans.

C. POLICY

1. Each DoD internal audit organization shall prepare formal guidance on the policies and procedures to be followed in developing its annual audit plan.

2. Based on the established guidance, the DoD internal audit organizations shall prepare an annual audit plan containing the audits scheduled to be performed during a specific fiscal year. The plan shall be consistent with the goals of:

   a. Meeting all statutory or regulatory requirements.

   b. Providing audit coverage of all significant audit areas on an overall audit cycle that averages 3 to 5 years. For those major programs or functions determined to have a high vulnerability, a 3-year cycle of coverage is more desirable.

   c. Achieving potential monetary benefits equal to or greater than the cost of the audit operations.

   d. Meeting the needs of management and the organization's mission.

   e. Responding to the concerns of the Congress for oversight of key programs.

   f. Providing balanced and representative audit coverage of all substantive DoD operations and programs.

   g. Maximimizing the use of all available audit resources and developing the capabilities of assigned audit staff.

   h. Providing audit coverage to those programs or activities that have a high susceptibility to fraud, waste, abuse, or mismanagement.

3. During the development of the annual audit plan, the DoD internal audit organizations shall:

a. Obtain suggestions for audits f ran both management and members of the audit organization and furnish feedback on the disposition of each suggestion.

b. Review the existing inventory of audi table entities for acceptability prior to developing the annual audit plan. The inventory may be particularly beneficial in supplementing multilocation, Service-wide, or DoD-wide audit coverage with sub jects that have not received audit coverage in recent years.

c. Discuss and review the annual plan with the head or deputy head of the activity having operational control over the audit organization. Discuss pertinent portions of the plan with the head, deputy head, or designee of the organizations for which the audit activity has cognizance.

D. STANDARDS

Chapter 2 of this Manual contains the DOD internal auditing standards. The standards most related to the development and staffing of an annual audit plan are as follows:

a. 610- Organization

b. 640 - Determination of Audit Priorities

c. 650 - Planning

d. 660- Coordination

E. GUIDANCE ON ANNUAL PLANNING PROCESS

In preparing the formal guidance to be f ollowed during the development of the annual audit plan, at a minimum, the following areas should be covered:

1. Responsibilities. Identify the specific responsibilities of the various elements of the internal audit activity in the development of the annual plan. Provide for functional area audit experts to be an integral part of the planning process and to play a key role in formulating the annual audit plan. The f unctional area expert is the individual within an audit organization responsible for conducting audits within a specific functional area. These experts shall maintain close liaison with key management officials in their assigned functional areas and shall provide technical guidance and support directly to the audit teams on matters within their functional area of responsibility.

2. Milestone Dates. Establish milestone dates for the completion of critical elements in the development of each annual audit plan. Generally, agencies should accomplish planning actions by the f ollowing dates, if not earlier, to permit effective coordination of annual plans with the other DoD internal audit activities and the General Accounting-Of f ice:

a. December 15 - Issue annual audit planning call.

b. February 15 - Obtain suggestions f ran management.

c. June 30 - Develop tentative audit plan.

d. September 1 - Review plan with head or deputy head of the Department or Agency to which the audit organization is assigned.

e. September 15- Issue final audit plan.

For internal review activities that develop audit plans on a calendar year basis to take into account the plans of other audit organizations, a compression of the above timeframes may be necessary in order to issue the final plan by the start of each calendar year.

3. **Planning Factors.** Describe the process to be followed in the development of the annual audit plan and include the factors to be considered in the specific areas for audit. Sane of the major factors to consider in the selection process shall include:

a. Ranking or priority of areas contained in auditable entity file.

b. Current high-level interest in a particular program or function.

c. Management and followup officials' requests for audit coverage in specific areas.

d. Amount of time since last audit coverage of the subject.

e. Target allocations of auditor days for the various functional areas making up DoD operations. (See Chapter 16 for functional area groupings.)

f. Achieving an acceptable mix of multilocation vs. single location audit coverage that will best use audit staff resources.

g. Adequacy and status of management actions on prior audit recommendations.

h. Audits scheduled or planned by other audit organizations.

i. Results of evaluations conducted by management or other oversight organizations.

4. **Contents of Annual. Audit Plan.** In developing the annual plan, certain basic information shall be provided for the audits proposed. The following minimum information is required for each audit project or assignment, either as part of the published plan or as backup documentation:

a. Specific reason for selecting the area for audit, as well as anticipated benefits, both monetary and nonmonetary, f ran the audit.

b. The audit objective(s) to be accomplished.

c. The activities and locations to be included or considered for inclusion in the audit.

d. The estimated auditor-days required to perform the audit.

e. The planned dates for starting and finishing the audit.

f. An estimate of the costs to perform the audit, including travel costs.

(While sane of the information required by the above paragraphs is for internal use by the audit activity, the copies of each Agency's annual audit plan that are distributed to management should, at a minimum, inform interested officials of the audits scheduled-and when they will take place.)

F. ANNUAL CALL FOR AUDIT PLAN

Before beginning work on each year's audit plan, the head of the audit activity shall provide guidance on the special factors to be considered in the development of the audit plan. This guidance should cover (but not necessarily be limited to) factors such as: auditor days available during the fiscal year; areas to be emphasized or deemphasized; availability of travel funds; and allocation of available time to the prescribed functional areas and major categories of audit, e.g., mandator y, multilocation, single location, etc. Such guidance may need to be revised once or twice during the planning cycle as conditions change and it becomes clearer where audit resources should be focused.

G. OBTAINING SUGGESTIONS FOR AUDITS

Internal audit activities shall ask both managers and auditors to submit suggestions for audits. This aspect of program development should be emphasized, since the quality of the annual plan is, to a great extent, affected by the quality of the audit suggestions

1. Suggestions f ran Management. Establish procedures for requesting audit suggestions f ran all levels of management. As a minimum:

a. Send a letter (preferably f ran the head of the audit activity) to top off icials of the organizations for which they have audit cognizance. Request suggestions f ran all levels of management and allow adequate time, such as 60 days, for managers to prepare their response.

b. Develop and use a standard format for audit suggestions to ensure that all the information needed to evaluate them is collected.

c. Notify management, in writing, about the disposition of its audit suggestion. This can be preceded by oral discussions.

d. Develop methods to publicize the audit suggestion process. Here are some successful methods:

(1) Emphasize the audit suggestion process in day-to-day contact with management personnel and in correspondence with counterparts.

(2) Ask top managers in the Military Departments or OSD to brief audit executives/functional area experts on their respective programs. These brief ings often identify areas managers think are critical, highlight the results of internal control reviews, and inform audit personnel of significant program changes and corrective action in progress or planned.

e. Direct particular attention toward soliciting audit suggestions f ran the headquarters of the military Inspectors General and criminal investigation activities. These activities, by nature of their own reviews, should be in an excellent position to recommend subjects conducive to audit.

2. **Suggestions from Within the Audit Activity.** Establish procedures for obtaining audit suggestions from key staff members throughout the entire audit organization. For the most effective results, the audit organization should have a procedure to encourage continuous input f ran its own auditors throughout the year, as well as setting aside a specific period for audit suggestion development and submission early in the annual planning cycle. Procedures should allow adequate time, perhaps 60 days, for preparation of audit suggestions. Develop and use a standard format for audit suggestions to ensure that all the information needed to evaluate them is collected.

3. **Suggestions from Foilowup Officials.** Establish procedures for obtaining suggestions f ran f ollowup off icials both on vulnerabilities that merit additional audit effort and areas of prior audit coverage where assistance is needed from audit organizations to assess the ef f activeness of management actiuns.

H. **DEVELOPING A TENTATIVE ANNUAL PLAN**

Each DoD internal audit organization shall complete a tentative annual plan showing the workload of the audit activity, including participation in DoD-wide audits, by June 30th of each year. The following techniques-or reasonable variations-have been successfully used by DoD audit organizations to formulate good tentative audit plans:

1. Establish a single control point in the audit activity headquarters to record, control, and distribute audit suggestions to the appropriate f unctional area expert.

2. Conduct appropriate audit research of suggestions to evaluate their merit and determine the most appropriate time for scheduling the audit.

3. Hold formal meetings with management to update functional area knowledge and to discuss related audit suggestions.

4. Maintain close coordination between the appropriate audit operations directorate and field elements while developing the tentative plan, so that current developments are fully considered.

5. Convene a high-level conference of audit managers and functional area experts to discuss the audit suggestions, suggest changes, and refine the tentative audit plan. Concentrate on the more important multilocation audit proposals.

6. Closely coordinate the proposed annual audit plan with the GAO and other applicable DoD audit organizations. As specified in Chapter 6 of this Manual, coordination of audit plans is a continuous process.

7. Reserve a reasonable amount of time in the annual plan for mandatory audits and for audits which cannot be specifically identified far enough in advance to be included in the annual audit plan.

I. ISSUING THE FINAL APPROVED PLAN

Complete and distribute the annual audit plan by September 15, or about 2 weeks prior to the start of the year covered by the plan if other than a fiscal year planning cycle is used. Retain complete supporting documentation in the planning files. In addition to normal distribution, send at least one copy of the annual audit plan to the other DoD internal. audit activities and to the GAO. Also, send two copies of the annual plan and any subsequent changes to the Office of the Assistant Inspector General for Audit Policy and Oversight, OIG, DoD.

J. DISCUSSING THE PLAN

Review the completed annual plan with the head or the deputy head of the DOD activity that has operational control over the DCD audit organization. Discuss pertinent portions with the head, deputy head, or designee of the agencies/organizations for which the internal audit organization has cognizance. The Secretary of Defense or the Deputy Secretary of Defense will be briefed at least annually on audit plans for the Department of Defense as a whole.

K. UPDATING THE PLAN

The annual plan should be used as a planning and scheduling tool and as a notice to management of the audits planned in their areas of responsibility. The plan should be revised and updated during the year to keep it current and to apprise management officials of audit scheduling changes affecting their organizations.